# Financial Markets

Irving Trust

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Economic Research &
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Friday
(Noon)

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Interest rates changed only slightly over the past week. Despite emerging signs of an economic slowdown in data released during the period, market participants remained nervous and unconvinced, focusing instead on recent rapid money growth and on the rate on Federal funds, which traded mostly in the 15%-16% range.

Against any backdrop but that of the last several weeks, the economic data released this week would have made the fixed-income markets markedly more bullish. As it was, the slowing reported in various measures of the inflation rate had almost no market impact. Part of the reason is that, having been misled so often before by temporary improvements in the inflation rate, many investors are now extremely "gun shy," and will require further confirmation before taking on substantial positions in long-term issues. In addition, the Federal Reserve finally may have convinced the market that it means business in hitting its monetary targets, so that the recent strong money growth momentarily dwarfs other considerations.

In one respect it is rather odd that the market should have given so much attention to the funds rate this week, since virtually all participants would now agree that the funds rate has little significance as an indicator of Fed policy intentions. But the rate is highly relevant to dealers as a determinant of the financing costs of their securities inventories. Currently, almost all short-term instruments are priced to create a zero or slightly positive spread over their overnight financing costs. On the other hand, Treasury coupon securities have slightly negative spreads in the short- to intermediate-maturity range, with substantially negative spreads existing for the longer maturities. It is thus hardly surprising that the coupon sector should be weak.

However, the major factor accounting for this weakness is the near absence of retail demand in the bond market--in vivid contrast to the huge visible supplies of offerings in the corporate and Treasury sectors. This was graphically illustrated by the poor results of this week's auction of $4.25 billion two-year Treasury notes. Ordinarily, the "coverage" of the auction--i.e., the total of bids relative to the size of the offering--would be on the order of twice the offering. In this case, however, only $5.2 billion of bids were received, very little more than the offering. As a result, the average rate of 14.51% considerably exceeded market expectations, and a large portion of the new securities was taken by dealers, who will have to make payments for them on April 30. If investor demand has not improved by then, further pressure on note rates could result. In addition, the results of the two-year note auction do not augur well for the upcoming Treasury refunding in the first week of May, when substantial additional amounts of longer-term securities will be auctioned.

William C. Melton

Note: The full text of this letter is available to Telerate subscribers on pages 7250-51 on the Monday morning following the Friday date of the letter.

# Irving Trust

# Market Yields

| | 4/24/81 (Noon) | Week Ago | Year Ago |
|---|---|---|---|
| **Prime Lending Rate at Irving Trust Company** | 17.50% | 17.00% | 19.50% |
| Effective since | 4/20/81 | | |
| **Discount Rate at Federal Reserve Bank** | 13.00 | 13.00 | 13.00 |
| **Federal Funds** | 14.75 | 15.00 | 15.88 |
| **Repurchase Agreements** | 14.50 | 14.75 | 14.50 |
| **U.S. Treasury Issues** | | | |
| Bills | | | |
| 3 months | 14.24 | 14.38 | 12.50 |
| 6 months | 14.74 | 14.73 | 12.60 |
| 1 year | 14.57 | 14.35 | 11.55 |
| Coupons | | | |
| 2 years | 14.40 | 14.12 | 11.50 |
| 4 years | 14.14 | 14.05 | 11.34 |
| 7 years | 13.90 | 13.91 | 11.11 |
| 10 years | 13.71 | 13.77 | 11.03 |
| Long Bond | 13.19 | 13.31 | 11.22 |
| **Negotiable Certificates of Deposit-Secondary Market** | | | |
| 1 month | 15.00 | 15.30 | 14.65 |
| 3 months | 15.25 | 15.50 | 14.40 |
| 6 months | 15.45 | 15.55 | 14.25 |
| 1 year | 15.50 | 15.60 | NA |
| **Banker's Acceptances** | | | |
| 1 month | 15.00 | 15.10 | 14.30 |
| 3 months | 15.20 | 15.00 | 14.35 |
| 6 months | 15.45 | 14.40 | 14.25 |
| **Eurodollar Deposits** | | | |
| 1 month | 15.55 | 15.88 | 16.13 |
| 2 months | 15.60 | 16.13 | 16.31 |
| 3 months | 15.65 | 16.44 | 16.38 |
| **Commercial Paper - Prime Names** | | | |
| Directly placed by: | | | |
| Finance Companies | | | |
| 1 week | 10.00 | 14.50 | 10.00 |
| 1 month | 14.50 | 14.25 | 12.00 |
| 3 months | 14.00 | 14.00 | 12.00 |
| Bank Holding Companies | | | |
| 1 month | 14.75 | 15.00 | 13.75 |
| Dealer Placed: | | | |
| 3 months | 14.75 | NA | 12.00 |
| **New AA Corporate Utility Bond** | 16.15 | 15.65 | 14.50 |
| **Tax Exempt** | | | |
| 6 month Project Notes | 7.40 | 7.30 | 6.75 |
| 1 year AAA Bond | 7.25 | 7.40 | 6.40 |
| 5 year AAA Bond | 8.20 | 8.25 | 6.50 |
| 20 year AAA Bond | 10.10 | 10.25 | 7.50 |

This information represents prevailing market yields.
**It should not be construed as an offering.**
All yields are on the offered side of the market.

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